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SUBJECT: ABN AMRO TAKEOVER BATTLE OVER

THE HAGUE 00001967 001.2 OF 003

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¶1. (SBU) SUMMARY. A consortium of the Royal Bank of Scotland, Spain's Banco Santander and the Belgian-Dutch bank Fortis have gained control of the Dutch bank ABN Amro after a long takeover battle that pitted the group against a rival bidder, the British bank Barclays. A detailed plan for ABN Amro's division among the consortium partners is expected by December; the entire process could take up to three years. Meanwhile, 'losing' ABN Amro to foreign entities has raised concerns among Dutch political, financial, and business leaders. Some have proposed the introduction of a "market master" to supervise more closely mergers and takeovers. Others believe investments by sovereign wealth funds require greater scrutiny. END SUMMARY.

## AND THE WINNER IS . . .

¶2. (U) On October 5, a consortium of the Royal Bank of Scotland (RBS), Spain's Banco Santander Central Hispano, and the Belgian-Dutch bank Fortis won control of approximately 86 percent of ABN Amro's shares, in a move by ABN Amro shareholders that sealed the success of the consortium's 72 billion euro bid for the Dutch bank. The British bank Barclays withdrew the same day its competing but lower bid of 67.5 billion euros. The action ended a eight-month long battle that had begun in February when the British hedge fund The Children's Investment Fund (TCI) -- holding a one percent share in ABN Amro -- had demanded a split up or sale of the bank to the highest bidder in order to increase shareholder value.

¶3. (U) Rijkman Groenink announced his resignation as Chairman of ABN Amro's Managing Board on October 10, the same day that the NYSE-Euronext Amsterdam exchange withdrew the bank's listing from the AEX-index. Commenting on his departure, Groenink said "in April, the bank [ABN Amro] wholeheartedly embraced a merger with our partner of choice [Barclays] as the next step in our long-term strategy. Shareholders have now chosen the consortium's offer. That is why it is appropriate for me to make way for a successor who is willing and able to execute the consortium's plans." Groenink is expected to earn approximately 26 million euros from the sale of his ABN Amro shares and performance-related bonuses. In addition, he will receive a "golden handshake" worth 4.3 million euros.

DIVVYING UP THE SPOILS
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¶4. (U) Mark Fisher, Chief Executive of the Manufacturing Division and a Board member at RBS, has replaced Groenink as Chairman of ABN Amro Holding. He will oversee the division of the bank between the consortium partners, which could take up to three years, and is expected to present in December for approval by the Dutch Central Bank (DNB) a transition plan detailing the exact division and number of job cuts. The DNB will then have 13 weeks to evaluate the plan.

¶5. (U) Other members of ABN Amro's Managing Board will retain their positions with revised duties. Current ABN Amro directors will be joined by representatives from RBS, Banco Santander, and Fortis. Brian Crowe, who runs RBS' Global Markets Division, will take over ABN Amro's Global Clients, Capital Markets and Transaction Banking Business Units. John Hourican, who oversees RBS' European leveraged finance matters, will become ABN Amro's new chief financial officer. Paul Dor from Fortis will run ABN Amro's Asset Management Units. Javier Maldonado, who is responsible for wealth management and corporate banking at Banco Santander's Abbey UK Unit, will be responsible for ABN Amro's Latin American businesses. Arthur Martinez will continue to chair ABN Amro's Supervisory Board and will be joined by Fred Goodwin (RBS Chief Executive), Jean-Paul Votron (Fortis Chief Executive), and Juan Inciarte (General Manager Banco Santander).

¶6. (SBU) Barbara Frohn a Senior Vice President at ABN Amro (please protect), commented to a visiting Government Accountability Office (GAO) delegation that the division of wholesale units and creation of interoperable information technology (IT) reporting systems would be challenging. However, she did not anticipate significant communication and cooperation problems within the new management structure.

¶7. (SBU) Jan Willem Blok, ABN Amro's Government Affairs Manager (please protect), recently told Econoffs there was "unrest among



employees" and the "winners" would now decide ABN Amro's future. He confirmed estimates of the loss of some 19,000 employees at ABN Amro and the three consortium banks. RBS will reportedly gain ABN Amro's businesses in North America (excluding the Chicago-based LaSalle Bank, which was sold to Bank of America on October 1), Europe (excluding the Italian-based Antonveneta Bank), and Asia (excluding Saudi Holland), as well as ABN Amro's Global Clients Unit (including wholesale clients in the Netherlands and non-Brazilian clients in Latin America). Banco Santander will acquire ABN Amro's Business Unit Latin America (excluding wholesale clients outside of Brazil) and Antonveneta in Italy. Fortis will gain the Business Unit Netherlands (excluding the wholesale clients), private clients (excluding Latin America), and ABN Amro's Asset Management Units. To limit its share of the Dutch retail market from increasing beyond 37 percent -- a level the European Commission considers too high, Fortis is subsequently expected to sell 10 percent of its ABN Amro Netherlands assets.

POLITICAL FALL OUT
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¶8. (SBU) Meanwhile, some opposition politicians have questioned whether the Dutch government should have allowed the takeover to go forward. Members of the Green Left and the Socialist Party (SP), supported by the Freedom Party and D66, have asked for details on how the bids were judged. SP member Ewout Irrgang has argued that Finance Minister Wouter Bos should not have granted a declaration of no objection to the consortium. However, the majority, including Paul Tang from the PvdA (Labor) Party, have reacted more cautiously, noting that politicians should not try to influence the bid process. (NOTE: The Dutch Finance Ministry (MOF) and the European Commissioner for Competition must both approve any merger or takeover of this scale in the Netherlands. Bos granted a "declaration of no objection" to Barclays on August 13 and to the consortium on September 17. Officially, the MOF does not need parliament's approval to grant such declarations. END NOTE.)

¶9. (SBU) Others in the financial community blame ABN Amro for making itself vulnerable by underperforming. ABN Amro, the second largest Dutch bank behind ING, had been a takeover target since the beginning of 2007. ABN Amro's share price had stagnated, and its earlier acquisition of the Italian Antonveneta Bank had proved more expensive that initially forecasted. Initial talks of a merger with ING and the creation of a "Dutch banking giant" ended without results. Some attributed the failure to personal disagreements between ABN Amro and ING management. Groenink's 26 million euros remuneration is now fueling a political debate within the Netherlands over the size of executive salaries and related bonuses.

MORE SUPERVISORY CONTROL?
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¶10. (SBU) Concerning supervisory oversight, the Netherlands Authority for Financial Markets (AFM) has called for a bigger role for financial supervisors during takeovers. According to AFM Member of the Board Paul Koster, the AFM should become a "market master" for mergers and takeovers, an idea that has been backed by Finance Minister Bos. As an example, Koster has said that such a "market master" would not have approved the sale of ABN Amro's Chicago-based LaSalle branch to Bank of America. Many financial observers have said the sale was an unsuccessful effort by ABN Amro management to make the bank less attractive to the RBS-led consortium. While the sale went through in the end, it was contested in court by ABN Amro shareholders and was seen as a test case on shareholders' versus management's power.

A RISE IN PROTECTIONISM?
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¶11. (SBU) While there is general agreement that market forces should continue to govern economic decisions, including on mergers and takeovers, some Dutch political and business leaders are now also calling for greater state control of "vital sectors," such as airports, ports, and the energy network, where public and social interests are at stake. They point to the emergence and increasing financial power of sovereign wealth funds from countries such as Russia and China and the potential political influence that such funds can carry. (NOTE: It only became known late in the ABN Amro bidding game that Barclays' final bid was backed by China's Development Bank. END NOTE.)



¶12. (SBU) In a recent press interview, Economic Minister Maria van der Hoeven acknowledged that foreign-owned companies account for some 80 percent of the listings on the NYSE-Euronext Amsterdam exchange. She noted these companies were "doing just fine," adding that mergers and takeovers must be the responsibility of companies themselves. However, she also commented that it would be naive for the government to just stand by while extremely wealthy funds "shop for Dutch companies." Embassy contacts have confirmed that van der Hoeven's Economic Ministry is exploring with the MOF whether an experts group is needed to investigate the functioning and possible risks of such funds.

COMMENT: A WAKE UP CALL
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¶13. (SBU) ABN Amro's takeover has clearly served as a wake-up call for many in the Netherlands. The Barclays bid, which was supported by Dutch Central Bank President Nout Wellink as well as Groenink, would have left the 183-year-old Dutch bank largely intact. With the battle over and plans for the split up of ABN Amro proceeding, Dutch politicians and business leaders are now focused on what, if any, measures might be needed to protect other "vital interests" in the Netherlands. Nonetheless, it remains too early to predict whether these actions and related concerns will lead to stricter regulation or oversight of the Dutch financial and/or business sectors.

GALLAGHER